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## **OPERATING BUDGET GUIDE**

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### **COMPARISON OF TRADITIONAL LINE ITEM BUDGET, PERFORMANCE BUDGET AND OUTCOME MANAGEMENT**

Sunnyvale's Performance Budget concept places emphasis on planning and budgeting resources for the accomplishment of service objectives as compared to the traditional budget which bases decisions on line-item costs.

The traditional budget in local government provides detailed costs of resources by the use of line-item object accounts. These accounts just show the total cost of a particular class of labor or type of material (paper, asphalt, etc.) that has been approved as a budget item for an entire organizational unit, usually a Department. Some workload data may be provided in the budget but it is generally not related to the cost of performing the work. Neither efficiency nor effectiveness data are included in this type of budget.

Sunnyvale's Performance Budget is organized by programs, objectives and tasks. During the budget development process, line item object accounts are used to budget within each task, and it is the task which generates the production units that accomplish the service objective. The Performance Budget thereby directly relates the labor, materials and other costs in the budget to the results that are to be produced. This link-up provides the means for measuring both the efficiency and effectiveness of resource utilization.

Resource allocation decisions in performance budgeting are based on the intended service levels of the objectives. Program Managers have the flexibility to redistribute resources within their programs to maintain (not increase or decrease) current service levels of the service objectives.

As a refinement of the Performance Management concept, Sunnyvale has turned its focus to Outcome Management. The premise of this method is that the entire structure begins with high level, core outcomes, which define the ultimate results being sought, which in turn determine service delivery components. The focus is on the end product, not the process. Hence, budget development is dictated by Council-determined outcomes. In addition, program level measures are assigned weights, giving the City Council the opportunity to set

relative priorities. The conversion process from Performance Budgeting to Outcome Management began in fiscal year 1995/96. The implementation process will take place over a five year period, with all programs expected to be converted to an outcome orientation by fiscal year 2000/01.

The following table compares traditional line-item budgeting by entire departments to budgeting by Tasks, which accomplish the Objectives within Programs, and budgeting by Activities, which accomplish the Service Delivery Plan within a Program Outcome.

#### **LINE ITEM BUDGETING/PERFORMANCE BUDGETING/OUTCOME MANAGEMENT COMPARISON**

	<b>TRADITIONAL LINE ITEM BUDGETING</b>	<b>PERFORMANCE BUDGETING</b>	<b>OUTCOME MANAGEMENT</b>
<b>Budget Orientation</b>	Money Control	Planning	Outcomes
<b>Council Appropriation Control Level</b>	Department	Program	Program
<b>Basic Budgeting Unit (Object Account)</b>	Line Item	Task	Activity
<b>Efficiency Measurement</b>	None Units Per Work Hour	Unit Cost	Product Cost
<b>Results Measurement (Effectiveness/Quality)</b>		Objectives Performance Indicators Community Condition Indicators	Outcome Measures
<b>Budget Period</b>	One Year	Multi-Year	Multi-Year

## **RELATIONSHIP TO THE GENERAL PLAN**

The overall purpose of the Performance Audit and Budget System (PABS) is to establish a process to assist program managers in scheduling work and resources in order to efficiently and effectively carry out the City's Goals and Policies contained in its General Plan. This purpose is summarized in the following concepts:

- Integration of long-term planning and evaluation with the budget process by relating the City's work efforts (tasks) to stated service levels aimed at accomplishment of the General Plan Goals and Policies.
- Defining City business in service level terms by use of objectives to describe planned accomplishments which contribute to achieving the General Plan's Goals and Policies.
- Recording the work hours, production units and financial aspects of achieved accomplishments.
- Measuring the efficiency and effectiveness achieved in accomplishing budgeted objectives.

The above concepts are interrelated. For example, under the Performance-Based budgeting method, the General Plan's Goals are directly related to specific Programs and Program Objectives. The Objectives are accomplished by Tasks in which all work hours and other costs are charged, and the Tasks provide statistics on the efficiency of production through Production Unit Cost and Units per Hour. Additionally, the effectiveness of objective accomplishment is also measured through Performance Indicators.

Under the Outcome Management method, a similar structure is maintained, but it is more integrated, with the focus on the ultimate result desired - the outcome. The central component, the Program Outcome Statement, provides answers to the "why", "how" and "how well". The program then consists of Service Delivery Plans based on the Outcome Statements. Service Delivery Plans are broken down into Activities which are measured in terms of Products. The effectiveness of the Outcome is determined by quantifiable Outcome Measures.

## **RESOURCE ALLOCATION PLAN STRUCTURE OVERVIEW**

The City's Performance Audit and Budget System (PABS) is a fully integrated component of the Planning and Management System (PAMS). The PAMS consists of three components: the City's General Plan (Policy Setting), Service Delivery (Operating Programs) and Evaluation (Program and Personnel Audits).

The General Plan and Service Delivery components are organized in a hierarchical structure which makes it possible to functionally relate the City's Goals and Policies to the actual work outputs which are produced to achieve those Goals. The structure is designed to make

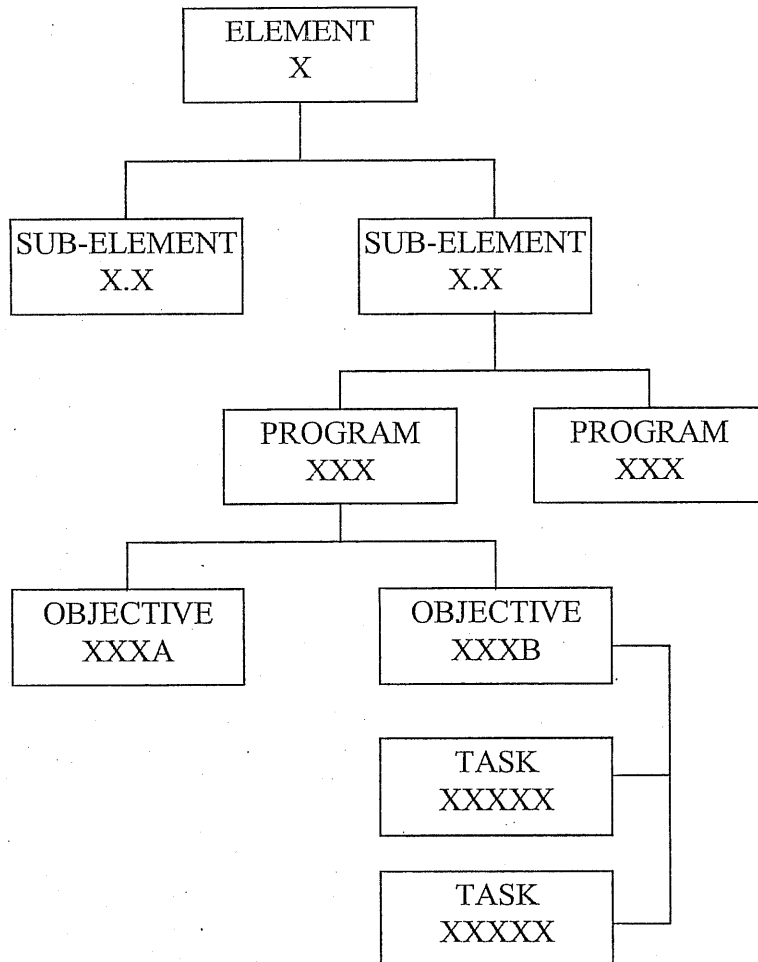
Service Objectives explicit within each Program so that information on the efficiency and effectiveness of its operations can be provided to Program Managers on a frequent basis.

The following three charts explain the program structure hierarchy and provide definitions of some key terms.

### GENERAL PLAN AND PROGRAM HIERARCHY

	HIERARCHICAL COMPONENT	RELATED DESCRIPTION	EVALUATION MEASURES
GENERAL PLAN	ELEMENT/SUB-ELEMENT	General Plan Goals, Policies and Action Statement	Community Condition Indicator Annual Performance Report
BUDGET (RAP)	PROGRAM	Program Mission Statement	Program-Wide Objective
	OBJECTIVE	Performance Standard (Objective Statements)	Performance Indicator
	TASK	Type of Production Unit	Production Unit Units/Hour Unit Cost

## PERFORMANCE BUDGET STRUCTURE HIERARCHY AND DEFINITION OF TERMS



**Community Condition Indicators** identify community conditions which require some form of direct or indirect service.

**Element/Sub-Element Goals, Policies and Action Statements** are established at the sub-element level to reflect the state of affairs the City desires to exist.

**Program Mission Statements** describe the overall intended purpose of the programs.

**Program-Wide Objectives** describe in specific and measurable terms the results programs are expected to achieve.

**Performance Indicators** are quantifiable expressions of program service objectives that permit measurement of performance.

**Production Units** are measures of task output used to accomplish the task.

**Unit/Hour** are the number of units produced in an hour per task.

**Unit Cost** is the cost to produce a unit in a task.

## OUTCOME MANAGEMENT STRUCTURE HIERARCHY AND DEFINITION OF TERMS

### PROGRAM OUTCOME STATEMENT

- *Council's Service Priority Direction*
- *Core Measures*
  - *Quality-Effectiveness*
  - *Cost Efficiency*
  - *Budget/Cost Ratio*
  - *Customer Satisfaction*

**Program Outcome Statements** describe the purpose and final result for which the program is undertaken (from customer's view) as well as broad service areas and critical measures.

**Service Delivery Plans** describe specific programming of targeted services to meet the program outcome(s).

**Activities** incorporate everything that goes into providing a specific service. This is the lowest official level cost center.

**Sub-Activities** (optional) are sub-sets of activities providing an optional cost accounting and management tool.

**Products** are the end results of activities that support outcome statements.

**Allocated Costs** are a method for allocating overhead time and other expenses.

**Weights** are assigned to program measures by Council to clarify relative priorities.

### SERVICE DELIVERY PLANS

- *Quality Effectiveness Measures*
- *Cost Efficiency*
- *Budget/Cost Ratio*
- *Allocated Costs*
- *Customer Satisfaction*

### ACTIVITIES & SUB-ACTIVITIES

- *Quality Effectiveness Measures*
- *Cost Efficiency*
- *Budget Allocation*

### PRODUCT

- *Demand Management*
- *Volume of Activities*